

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SPC-03 SAM-01 AID-20

NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 PM-07 L-03 H-03 PA-04 PRS-01

USIA-15 FEA-02 INT-08 SCI-06 AEC-11 DRC-01 /215 W

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P R 221607Z FEB 74

FM AMEMBASSY BERN

TO SECSTATE WASHDC PRIORITY 8734

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

AMCONSUL ZURICH

C O N F I D E N T I A L BERN 0722

DEPT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, SZ

SUBJECT: SWITZERLAND AND WORLD MONETARY AND TRADE RELATIONS

REF: STATE 032727

1. SUMMARY. FOLLOWING KEYED TO PARAS REFTEL (C-ER-4-57864). EMBASSY BELIEVES ADDITIONAL EXCELLENT SOURCE OF INFO RE SWISS VIEWS/ ATTITUDES ON REFTEL AND RELATED SUBJECTS WAS IN AND AROUND RECENT PARIS MEETINGS OF OECD, WP-3 AND EPC. IN ADDITION, DOCUMENT PREPARED BY OECD SECRETARIAT FOR FEB 7 EDRC REVIEW OF SWITZERLAND (EDR(74)2), OECD PARIS 4123, AND BERN 222 PROVIDE GENERAL SUMMARY
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OF CURRENT SWISS MACRO SITUATION. END SUMMARY.

2. WITH ONE-THIRD OF IMPORTS FROM GERMANY, SWISS AUTHORITIES PAY MUCH MORE ATTENTION SF/DM RATE THAN RELATIONSHIP WITH DOLLAR. AGAINST DM, SWISS FRANC HAS EXPERIENCED EFFECTIVE DEPRECIATION WHICH EXPLAINS IN PART SWISS INFLATION PROBLEM. SNB IS CAREFUL TO SEE THAT SF/DM FLOATING RELATIONSHIP DOES NOT GO BEYOND ACCEPTABLE RANGE AND WE UNDERSTAND THAT AT LEAST BRIEFLY TRIED TO FIX ON DM BUT DECIDED THAT IT WAS UNDESIRABLE TO GIVE MARKET FIXED POINT WITH SNAKE CURRENCY TO ATTACK. WITH REGARD DOLLAR, SWISS AUTHORITIES AND BANKERS GENERALLY FEEL THAT LATE 1973 DOLLAR RECOVERY WAS EXCESSIVELY RAPID AND THAT RECENT WEEKS DECLINE WAS ALSO UNNECESSARILY SHARP AND ARE ALSO BOTHERED BY SIGNIFICANT DAILY SWINGS. AS COMPARED WITH CURRENT DOLLAR RATE AROUND 3.10, WE SUSPECT SNB WOULD PREFER RATE IN 3.20/3.30 RANGE. WE SENSE SOME FEELING THAT RECENT FEDERAL RESERVE NEW YORK SF PURCHASES WERE RATHER HEAVY AND THAT MORE MODEST ACTIVITY, PLUS REMOVAL CONTROLS, AND INTEREST RATE DEVELOPMENTS ALONE WOULD HAVE BEEN ADEQUATE TO AFFECT RATE IN RIGHT DIRECTION.

3. SNB IS PREPARED SEE SOME EROSION OF AMPLE RESERVES IN LIGHT ANTICIPATED ROUGH BALANCE OR VERY MODEST 1974 CURRENT ACCOUNT DEFICIT, BUT IS UNLIKELY TO SPEND OR ABSORB RESERVES TO ANY SUBSTANTIAL EXTENT TO MAINTAIN ANY PARTICULAR PATTERN OF CURRENCY RATES. SWISS HAVE BEEN UNEXPECTEDLY PLEASED WITH FLOATING EXPERIENCE, AND WHILE NOT AVERSE TO INTERVENTION DO NOT WANT TO BE FORCED DEFEND RATES AGAINST MARKET, PARTICULARLY SINCE SWISS FRANC EXCHANGE MARKET IS THIN AND EASILY INFLUENCED BY SPECULATIVE ACTIVITY AND/OR LARGE MOVEMENT OF FUNDS.

4. SWISS ARE, OF COURSE, NOT IN IMF AND THUS NOT IN C-20. WE ASSUME THEY WOULD WELCOME RULES OR AT LEAST UNDERSTANDINGS RE FLOATING BEHAVIOR, BUT HAVE NO FIRST-HAND IMPRESSION OF THEIR PRECISE VIEWS ON THIS SUBJECT. WITH REGARD POSSIBLE SWISS IMF MEMBERSHIP, THERE HAS BEEN SOME REAWAKENING OF INTEREST AS SWISS HAVE COME TO REALIZE THAT FULL-BLOWN REPLACEMENT OF BRETTON WOODS SYSTEM IS NOT LIKELY IN SHORT-RUN BUT INSTEAD REFORM WILL FOLLOW MORE MODEST, PRAGMATIC, EVOLUTIONARY ROUTE.

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(PRESENT POSITION AGAINST MEMBERSHIP BASED ON INABILITY TO ACCEPT ARTICLES OF AGREEMENT WHICH ARE NOT FULLY IN FORCE.) POSSIBILITY OF IMF MEMBERSHIP HAS BEEN MENTIONED BY AMBASSADOR JOLLES OF DIVISION OF COMMERCE IN TWO RECENT SPEECHES AND BY PRESIDENT BRUGGER. IT SEEMS LIKELY THAT BEFORE LONG FEDERAL COUNCIL WILL ASK FOR INTERNAL REPORT ON PROS AND CONS OF SWISS MEMBERSHIP. WE WOULD ASSUME THAT ONE SINE QUA NON WOULD BE SEAT FOR

SWITZERLAND ON EXECUTIVE DIRECTORS AND PROPOSED COUNCIL OF GOVERNORS. WE DO NOT EXPECT EARLY DECISION RE MEMBERSHIP.

5. TO SAFEGUARD TOUGH DOMESTIC CREDIT RESTRAINT PROGRAM CARRIED OUT LARGELY BY RESTRICTIONS ON BANK LENDING, SWISS DO NOT ALLOW INDUSTRY TO BORROW ABROAD. WE EXPECT NO CHANGE IN THIS POLICY IN NEAR-TERM NOR IS THERE ANY NEED FOR SWISS ENTITIES TO BORROW ABROAD FOR BALANCE OF PAYMENTS OFFSET REASONS.

6. SWISS PRIVATE AND COMMERCIAL BANKERS SHOW NO SIGN OF GOING OFF THEIR LONG-TERM ADDICTION TO GOLD, ALTHOUGH BOTH THEY AND AUTHORITIES WOULD LIKE SEE GOLD BECOME MORE CREDIBLE RESERVE ASSET EITHER BY CHANGE OF OFFICIAL PRICE OR MORE LIKELY USE OF GOLD IN EC SETTLEMENTS. IF LATTER, SWISS MIGHT WELL TAKE COMPARABLE ACTION ALTHOUGH AS NOTED ABOVE SWISS SEE NO EARLY NEED FOR MASSIVE USE OF ABUNDANT RESERVES.

7. SWISS ARE GENERALLY RELATIVELY RELAXED RE IMPACT OF OIL PRICE RISE. THEY SEE SOME DOWNWARD PRICE MOVEMENT AND EXPECT MORE. THEY HAVE EFFECTIVE FEB 20 RELAXED CONSERVATION MEASURES, AND ARE HOLDING OPEN POSSIBILITY OF BILATERAL DEALINGS WITH PRODUCER COUNTRIES ALTHOUGH STILL PREFERRING MULTILATERAL APPROACH (SEPTELS). BASICALLY, SWISS STILL EMPHASIZE INFLATION AND CONTRACTIONARY POLICY RATHER THAN FEELING NEED YET FOR EXPANSIONARY POLICY ACTIONS. MOREOVER, DEMAND FOR SWISS EXPORTS RELATIVELY PRICE INELASTIC, AND A CONSIDERABLE PART OF HIGHER OIL COSTS CAN PROBABLY BE PASSED THROUGH IN FORM OF HIGHER EXPORT PRICES.

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8. GOS CONSIDERS IT ESSENTIAL UNDER PRESENT ECONOMIC CIRCUMSTANCES THAT ANY HEAVY INFLOW OF FUNDS FROM PRODUCERS BE RECYCLED OUT OF SWITZERLAND. ARSENAL OF TOOLS IS AVAILABLE TO IMPEDE OR SLOW ANY SIZEABLE INFLOW NOT RECYCLED (E.G., REIMPOSITION OF BAN ON PURCHASE BY FOREIGNERS OF SWISS SECURITIES, SNB MARKET INTERVENTION). BUT WE UNDERSTAND OFFICIALS DIFFER ON WHETHER EXISTING EUROCURRENCY MARKETS AND OTHER OUTLETS FOR FUNDS ARE ADEQUATE, OR WHETHER NEW DEVICES TO ASSURE RECYCLING AND POSSIBLE AID TO LDCS IN MEETING OIL PRICE INCREASES SHOULD BE ESTABLISHED.

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